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CBO Predicts 2004 Deficit Will Top \$480B

\$1.4 Trillion in Debt Foreseen Over the Next Decade

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The federal government will post a record \$480 billion deficit next year and accumulate nearly \$1.4 trillion in new debt over the next decade before slowly climbing back into the black by 2012, the non-partisan Congressional Budget Office said today.

But if President Bush succeeds in making his tax cuts permanent, the government will run substantial budget deficits as far as the eye can see, the forecast made clear. Add the White House's \$400 billion prescription drug benefit and the deficit would still total \$324 billion in 2013.

In a clear departure from past projections, CBO's latest budget update lays out the stark policy choices facing Congress and the White House as they return to Washington in September. Those decisions will establish whether the government quickly returns to the budget surpluses of 1998 through 2001 or accumulates record deficits just when the Baby Boom generation begins to retire.

"We cannot do everything; it's the oldest rule in economics," said CBO Director Douglas Holtz-Eakin, who recently left Bush's Council of Economic Advisers. "Choices have to be made, and that will determine our path."

Current policies, which assume three successive tax cuts passed since 2001 will all expire by 2011, would bring the government a nearly balanced budget by 2011, and a \$161 billion surplus by 2012, congressional forecasters say. If the cost of fighting in Iraq and Afghanistan drops quickly, the budget picture would brighten even faster.

But budget experts say more realistic scenarios are far more bleak. Extending the tax cuts indefinitely, as the president and congressional Republicans have vowed to do, would add nearly \$1.6 trillion to the federal debt through 2013. CBO also assumes spending at Congress's discretion will rise only with the rate of inflation, a trajectory that not even the president envisions. If instead, spending rises with the growth of the economy, the debt would grow by another \$1.4 trillion.

Another trouble spot is the alternative minimum tax, which was enacted to ensure that the affluent paid some taxes but which increasingly ensnares the middle class. If that tax is revamped, it would cost the government another \$400 billion, according to CBO.

Add the Republican prescription drug benefit and the deficit in 2013 would stand at \$754 billion, by CBO's projections. And that would have real economic consequences, Holtz-Eakin warned, including higher interest rates, lower national savings and escalating government interest payments that would either crowd out other government programs or contribute to spiraling government debt.

Future Congresses will be faced with "extraordinarily excruciating choices" and will invariably have to cut deeply into Social Security and Medicare benefits, predicted Sen. Kent Conrad (D-N.D.), the ranking Democrat on the Senate Budget Committee.

"There's no way to gloss over these numbers," said Rep. John M. Spratt Jr. (D-S.C.), the ranking Democrat on the House Budget Committee. "We've got a grave problem on our hands, and it won't go away on its own."

Republicans today stressed that recent signs of an economic rebound could already make CBO's projections out of date. Congressional forecasters determined their economic projections about seven weeks ago, according to House Budget Committee Republicans. Since then, manufacturing output has improved, job losses appear to have stabilized, consumer sentiment has risen and consumer spending has surged.

Still, House Budget Committee Chairman Jim Nussle (R-Iowa) did not try to minimize the government's deteriorating fiscal fortunes. He did try to lay the blame not on tax cuts but on federal spending, which has surged by an annual average of 7.7 percent since 1998.

"Deficits do matter, and the current deficit is too big," he said. "However, these are spending-driven deficits. Ending deficits will require a growing economy and controlling runaway government spending. We must do both."

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